

AN
ECONOMIC SURVEY
OF THE
MASSACHUSETTS
FILM AND VIDEO
PRODUCTION INDUSTRY
1987 AND 1988

PREPARED FOR THE
MASSACHUSETTS FILM OFFICE
MARY LOU CRANE, DIRECTOR

BY
BUTTERFIELD COMMUNICATIONS GROUP
CAMBRIDGE, MASSACHUSETTS



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SUMMARY

In the two years since the Massachusetts Film Office's last economic impact study, the state's film and video production industry has grown and matured. Overall expenditures are at an all-time high and the quality of personnel and facilities has never been better.

This maturation has not come without pains, most notably, an increasingly competitive market for local producers and production personnel. As the market for production has grown, so have the numbers of individuals and companies relying upon this market for their livelihoods. This has resulted in increased pressure on prices that will most likely continue into the foreseeable future. Because of this, members of the production community are only moderately optimistic over their earnings prospects for 1989.

The following highlights are excerpted from this report:

- o Direct expenditures by clients and investors for film and video production work in Massachusetts reached a new high of \$193 million with an economic impact of \$309 million in 1988 -- an increase of 25% over 1986;
- o Since 1980, direct expenditures have increased 900% cumulatively; this represents an average annual increase of 33% for the past eight years;
- o Corporate production work has grown to become the largest production segment and now accounts for over half of all production work in the state;
- o Production Company 1988 revenues totaled \$154 million; Independent Producers reported 1988 revenues of \$43 million;
- o Employment among Independent Producers and Production Companies is estimated at 1700 full-time and 1400 part-time positions;
- o Earnings expectations among members of the local production community reflect moderate industry growth and increasing competition through 1989.

PREFACE

This report measures the direct expenditures for film and video production work within the state of Massachusetts for the years 1987 and 1988 and can serve as a barometer for the general trends operating within the industry. Revisions in methodology and a high rate of cooperation have contributed to what we believe to be the most accurate profile of the Massachusetts film and video production industry to date.

The Massachusetts Film Office and Butterfield Communications Group (BCG) would like to express their thanks to the members of the Massachusetts Production Industry who understand the importance of this report and took the time to complete and return surveys.

Methodology and Analysis

Ideally, the way to measure direct expenditures is at their source -- the clients. However, because clients number in the thousands and are spread across the world, a more practical approach is necessary. A similar result can be achieved by measuring the total dollar intake, or gross revenues, of each of the major participating industry groups and then adjusting these totals to discount the additive effect that occurs as production dollars pass from Client to Producer to Production Company to Production Services, Freelancers, and Performers.

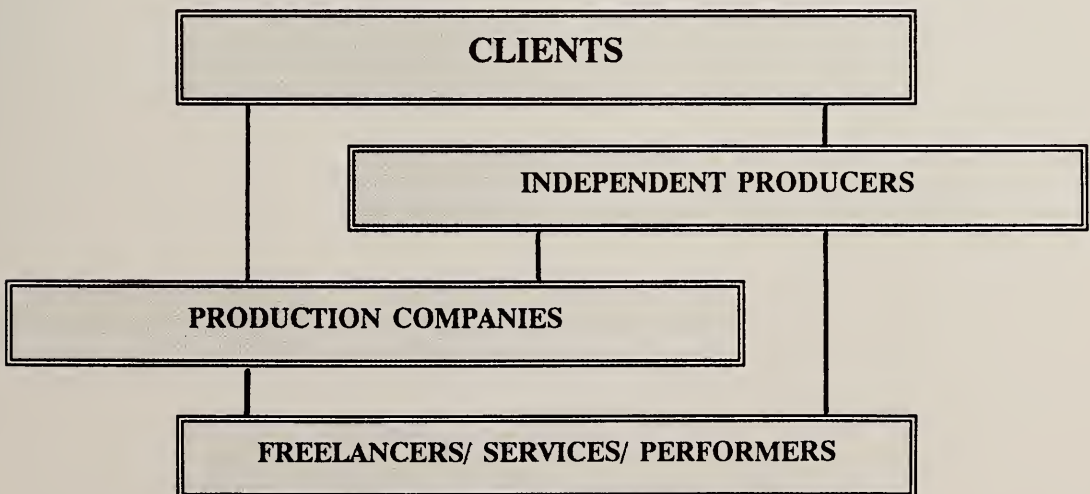
The survey participants were drawn primarily from Film Office records with some additional Production Companies culled from the Boston-area NYNEX yellow pages listings. These records largely represent the total size of the Massachusetts production community; even though individuals and/or companies may have exited the state or the industry, new individuals and companies entered, so that the total number of members remained relatively constant between 1987 and 1988.

Defining and categorizing the survey samples presented an obstacle. For example, Production Companies should exclude television stations and individuals who mainly recorded weddings and other domestic events. However, it soon became evident that these boundaries are indistinct, that some companies record weddings to fill in between the occasional corporate project. Another example is Independent Producers who also work as freelance directors, etc.

We eventually arrived at the following survey groups:

- o Production Companies - have a significant investment in facilities, maintain a full-time staff, and often rent out their facilities to independent producers. Television stations are not included because they are generally self-contained. Any interactions they have with the production community are reported on the Film Office location expenditure forms. There are roughly 115 production companies in Massachusetts.
- o Independent Producers - must rent facilities and hire freelancers for virtually every job. There are roughly 150 of these statewide.
- o Production Service Companies - comprise the most diverse group and include casting, payroll, catering, equipment rental, lighting, vehicles, medical, makeup and any other products/services used by film and video producers. Our lists identified roughly 250 of these statewide.
- o Freelance Personnel - includes individuals, except Independent Producers, who hire themselves out on a job-by-job basis for any production-related work. This does not include full or part-time production company staff. Our lists identified roughly 500 of these statewide.

Direct expenditures are made by clients -- agencies, advertisers, corporations, investors -- to have production work performed. These expenditures are then received by Independent Producers and Production Companies who in turn distribute a portion of these dollars to Freelancers, Service Companies, and Performers. The remainder of the money is retained by the producers to cover operating costs and profits. The diagram below illustrates this flow of production dollars.



Additionally, we wanted to measure the production work performed by In-House Corporate production facilities. These facilities are maintained by large companies such as Digital Equipment Corporation, Prime Computer, and Raytheon to produce training, sales, marketing, and educational tapes for company use. With assistance from the Industrial Television Association (ITVA), the trade group dedicated to Corporate production work, we identified the 22 largest of these which accounted for an estimated 80% of the In-House Corporate work performed in the state.

Data for all groups was collected using a mailed survey. Due to the sensitive nature of some of the questions, respondents were asked to not identify themselves. This guaranteed anonymity, combined with diligent followup by Butterfield Communications Group, helped push the overall survey response rate to a very respectable 25%.

The Film Office supplied records of the location work conducted in Massachusetts during 1987 and 1988. These numbers are presented only as totals since confidentiality prevents the disclosure of figures for individual projects.

The Boston office of the Screen Actors Guild (SAG), a union of Performers, assisted by providing 1988 estimated earnings by SAG members according to the type of production work -- Feature Films and TV, Commercials, and Corporate. Lists of non-union Performers were unavailable so the SAG figures were adjusted upward slightly to account for the small amount of expenditures earned by non-union Performers.

Finally, changes within the production industry associated with the maturation process have led to shifting definitions of production categories and required methodological changes from previous surveys. Pages two and three detail some of those changes.

SECTION ONE:

**THE MASSACHUSETTS
FILM AND VIDEO
PRODUCTION MARKETPLACE**

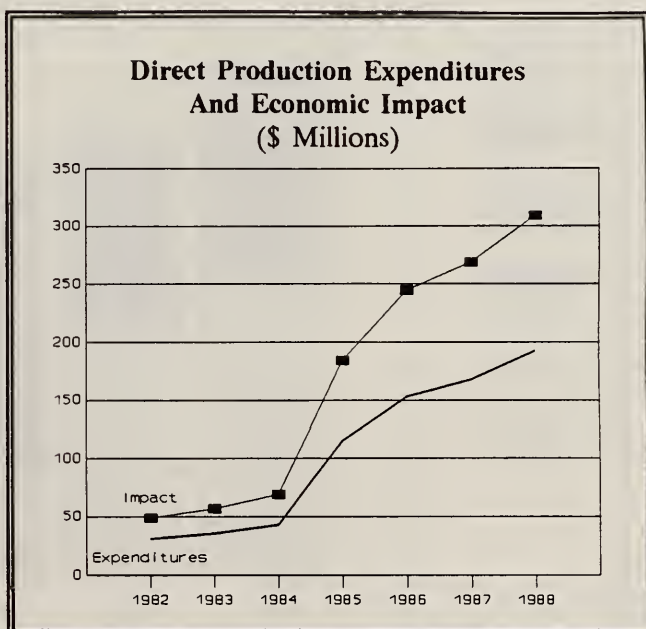
STATEWIDE EXPENDITURES AND ECONOMIC IMPACT

The Massachusetts Film and Video production industry is one of the healthiest in the country. Aside from New York and Los Angeles, which are in a league by themselves, Massachusetts and the Boston area offer one of the most vibrant and growing production industries in the United States . . . and the survey results bear this out.

Total Direct Production Expenditures

Direct production expenditures in Massachusetts continued their strong growth and reached an all-time high of \$193 million in 1988. This figure represents an increase from 1980 of about 900% or, to look at it another way, total direct production expenditures in 1988 were almost ten times the \$19.4 million that was reported just nine years earlier. Average annual growth for the period 1980 to 1988 was 33%.

Using an economic multiplier of 1.6¹, BCG estimates the economic impact associated with 1988 direct production expenditures reached \$309 million. This multiplier is consistent with previous Film Office studies.



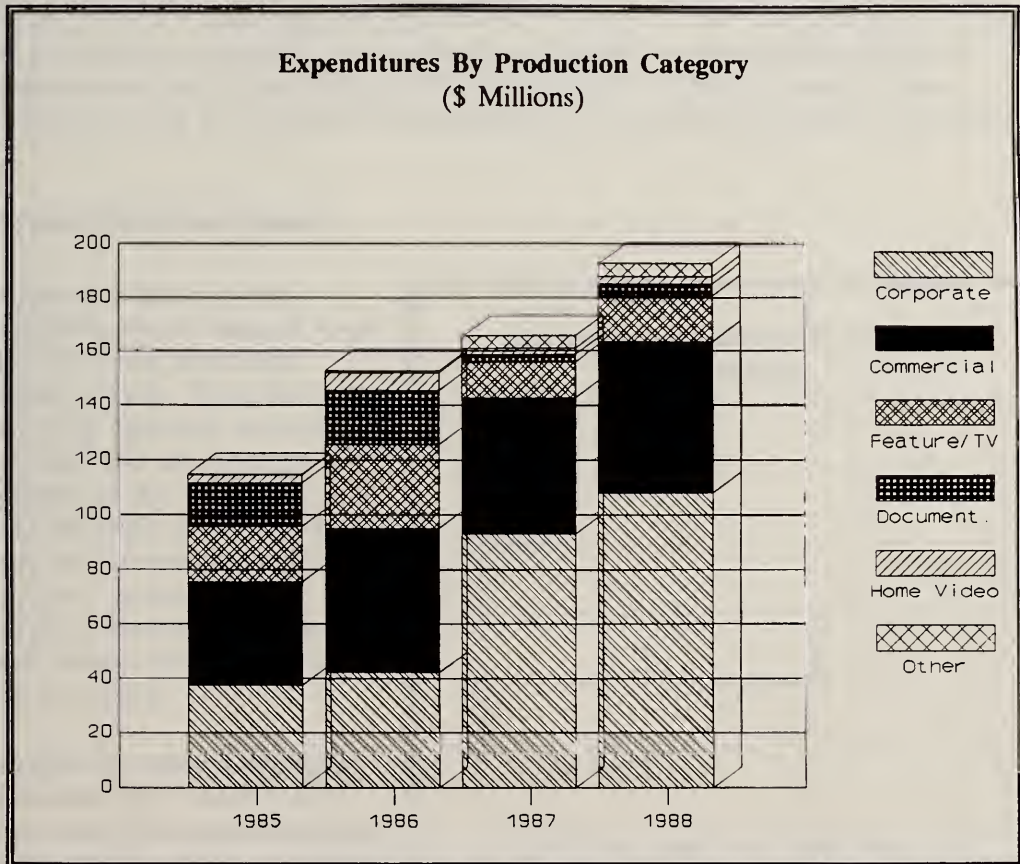
Production dollars attributable to sources located outside Massachusetts accounted for approximately \$47.5 million in 1987 and \$55 million in 1988. In both years, these out-of-state dollars accounted for 28% of the total production dollars received by members of Massachusetts' production community. This 28% level of out-of-state production dollars has remained consistent since 1983 with the exception of a slight rise to 32% in 1984.

¹

Most state film commissions use the higher Federal Reserve Turnover Rate of 3.57 to estimate economic impact associated with film and video production work. For Massachusetts' 1988 production expenditures, this rate results in an economic impact figure of \$689 million.

The Production Industry Matures

Over the last several years, the Massachusetts production industry has evolved in terms of both the distribution of production dollars and the sizes of the various production segments. In some cases, category definitions have shifted. For instance, Interactive Video is used primarily by companies in training situations and can be considered Corporate/Educational production.



The tendency to categorize production work according to its primary distribution channel is quickly becoming antiquated due to proliferation of distribution alternatives. VCRs are used in the home and the workplace, Feature Films are viewed on the theater screen, the VCR, Pay-Per-View, pay and basic cable, and broadcast television. Interactive video technology will eventually be used for many purposes, including education and entertainment, and be delivered by a variety of media.

To reflect some of these definitional and industry changes, refinements were made in the collection and measurement of data for this report. These changes make data comparisons between this study and the 1985-86 Economic Impact Study difficult. To facilitate comparison, 1985-86 survey results have been adjusted to fit into the structure of the current survey. These adjustments include the elimination of certain categories and the re-distribution of the dollars to other categories.

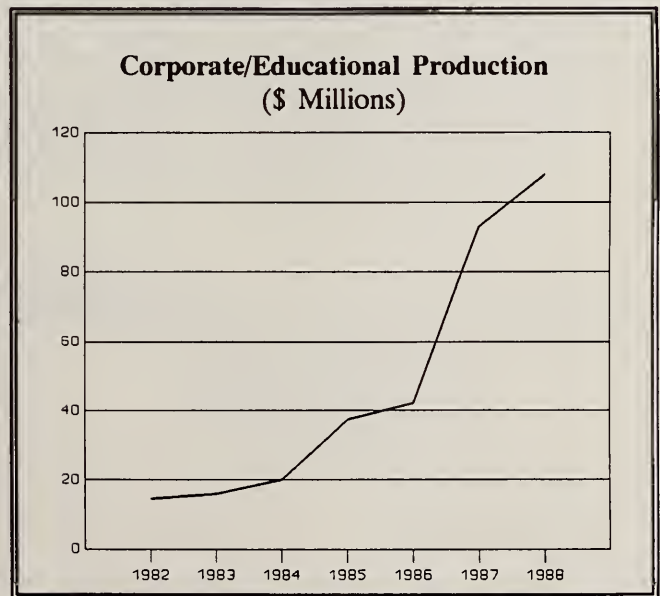
One other change from the 1985-1986 study involves one of the survey respondents to that study. An Independent Producer reported total revenues -- attributable to Feature Film, TV Entertainment, and Home Video -- in 1985 and 1986 of \$10 million and \$15 million respectively. Averaging these figures into the Features Film, TV Entertainment, and Home Video categories resulted in inflated figures for these categories as well as concomitant reductions in the remaining production categories.

Corporate/Educational

Corporate production has emerged as the foundation upon which the local production industry is built. Propelled by the strong high-tech industries combined with an apparent explosion in the use of film and video materials as support for a variety of company activities, Corporate production now provides a sizable and relatively stable market for most of the local producers.

Through the 1980s, Corporate production grew steadily until 1985, when it accelerated sharply due in large part to an increase in Interactive Video production.

In 1987, Corporate production grew 120% to almost \$87 million and in 1988, it grew another 16% to \$108 million.



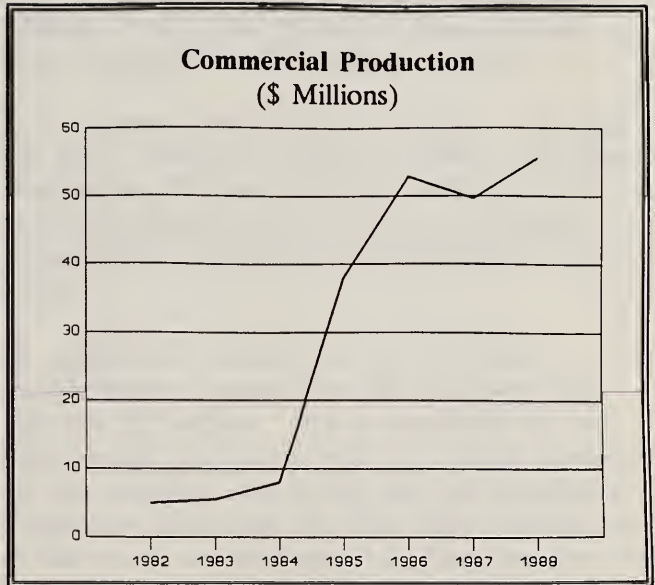
One major revision from prior Film Office studies is the combination of Corporate production with Interactive Video production. This was done because, at the moment, the primary uses of Interactive video technology -- to support company activities such as training and marketing through visual media -- are identical to those of Corporate production work. As the uses for Interactive Video expand, this type of production work will be attributed to other categories as well.

Commercials

Commercial production work ranked second only to Corporate in terms of dollar volume and importance to the local production community, though it has remained relatively flat in terms of growth. In 1987, Commercial production reached almost \$50 million, a slight decrease compared to 1986. In 1988, Commercial production grew 12% to over \$55 million.

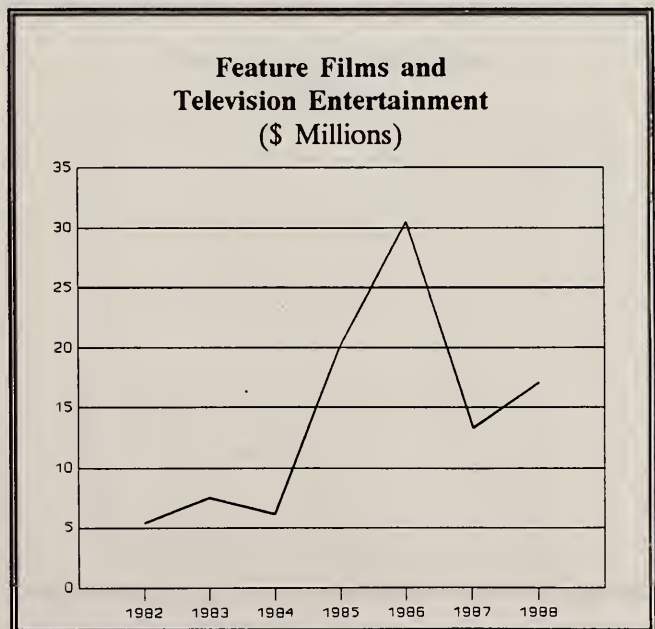
Like Corporate, Commercial production also owes much of its growth to the state's high-tech industry, though more indirectly. High-Tech companies have

fueled the growth of Massachusetts' and Boston's advertising agencies which in turn have pumped Commercial production dollars into the production community.



Feature Films and TV Entertainment

Feature Film and Television work in Massachusetts plays a lead role in how the local production community is perceived by the rest of the country's production industry. It also provides free national and international exposure for the state which serves to boost tourism. High profile productions such as *Spenser: For Hire*, *The Witches of Eastwick*, *Jaws*, and recently, *The Kennedys of Massachusetts*, continue to build on the state's already strong reputation.



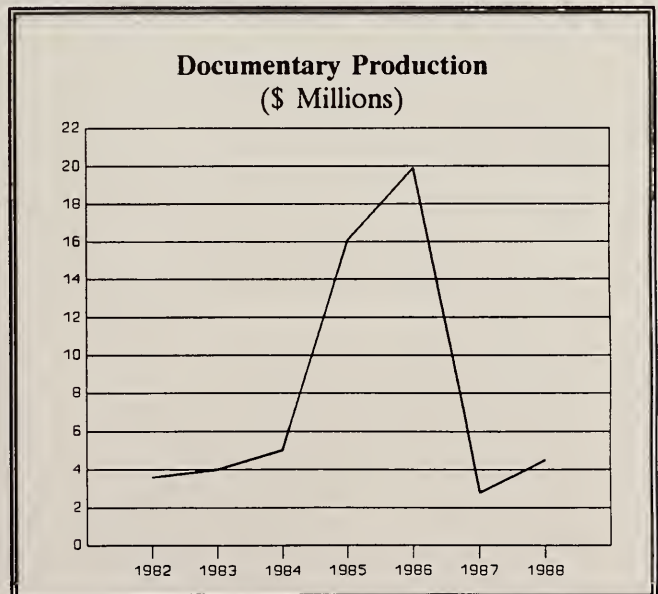
The primary beneficiaries of Feature Film and Television expenditures are the local Freelance, Performers, and Production Services suppliers, as well as local merchants, including hotels, restaurants, and retailers. A very small portion of these location expenditures finds its way to Massachusetts producers or production facilities.

Prior to 1985, Feature Film and TV expenditures grew slowly but steadily, reaching a combined total of about \$6 million in 1984. However, in 1985 and 1986, in response to the Film Office survey, a single Independent Producer reported combined Feature Film and TV Entertainment revenues of \$8 million and \$10.5 million respectively. This singular occurrence resulted in significantly larger figures for Feature Film and TV Entertainment in both of these years.

In 1987, Feature Film and Television expenditures totaled just over \$13 million, almost three-quarters of which was attributable to *Spenser: For Hire*. In 1988, total location expenditures increased to just over \$17 million. This is remarkable for two reasons. First, a national writers strike brought production work to a virtual standstill for half of the year. Second, *Spenser* was cancelled early in the year and contributed less than \$2 million. As a result of aggressive marketing, the Film Office covered the loss of a major television series -- as well as the cancellations of *St. Elsewhere* and *The Law and Harry McGraw* -- and was able to attract enough additional business to the state to grow Feature Film and Television expenditures by over 30% between 1987 and 1988.

Documentaries

Documentary production work presents somewhat of an anomaly. The revised figures for 1986 indicate that Documentary production work approached \$20 million and that over 40% of the responding companies participated in Documentary work at some level. However, 1987 figures indicate only about \$2.7 million was spent on Documentary production and that only 21% of the companies participated in this type of production work. Though Documentary expenditures increased to \$4.3 million in 1988, they were still well off of the 1986 level.



Significant cutbacks in government and institutional support of documentary production, coupled with strong growth of the Corporate production segment and the potential profits that it represents, have attracted producers away from the less profitable and smaller market segment of Documentary production.

Home Video

Nationally, the surge in Home Video production that was expected to follow the large volume sales of VCRs over the past few years has not occurred. Aside from a small bump that appeared in 1986, annual Home Video work in Massachusetts has hovered around \$2.5 million between 1985 and 1988.

Home Video is another category designation that is quickly becoming dated due to the variety of work which it encompasses. Home Video originally referred to any production whose primary distribution was through VHS or Beta format video cassettes intended for the consumer market. However, VCRs have permeated the workplace as well.

Other

This category encompasses a range of activities conducted by Independent Producers and Production companies which do not fall directly into any of the previous categories. These activities include the filming or taping of meetings, weddings, fashion shows and small-scale occasions which are sometimes used by producers to supplement their income.

SECTION TWO:

**THE MASSACHUSETTS
PRODUCTION COMMUNITY**

PRODUCTION COMPANIES

Production companies and Independent Producers receive the majority of the film and video production dollars spent in Massachusetts. Depending upon their focus, these individuals and companies can obtain their income from sales of production services to clients such as advertising agencies or corporations. Some producers also finance their work with funds raised from institutional or private investors; other producers receive revenue from the retail distribution of their work. Throughout this section, the term "revenue" is used to generally refer to any money received by producers for production and production-related work.

This report draws a distinction between production companies and independent producers for several reasons:

- o Production Companies combine a variety of production services with technical facilities under one roof. Independent Producers will hire the services and facilities as they are needed. This leads to two distinct operating philosophies and cost structures.
- o Although both Production Companies and Independent Producers exist in a wide range of sizes, on average, Independent Producers tend to be smaller in terms of both revenue and employment.
- o The barriers to entry among Production Companies are higher due to the capital investment required. It is much easier to become an Independent Producer because there are virtually no start-up costs. This suggests differences in the competitive environment for each of these groups.
- o Independent Producers often utilize Production Company equipment and facilities, thus functioning as clients, as well as competitors, of the Production Companies.

Film Office records identified 146 Independent Producers and 116 Production Companies. Television stations, though they are involved in production and sometimes utilize the services and facilities of the production community, are considered to be in a different industry and were not included in the sample. Similarly, individuals who shot only weddings and other domestic events were excluded.

Total Production Revenues

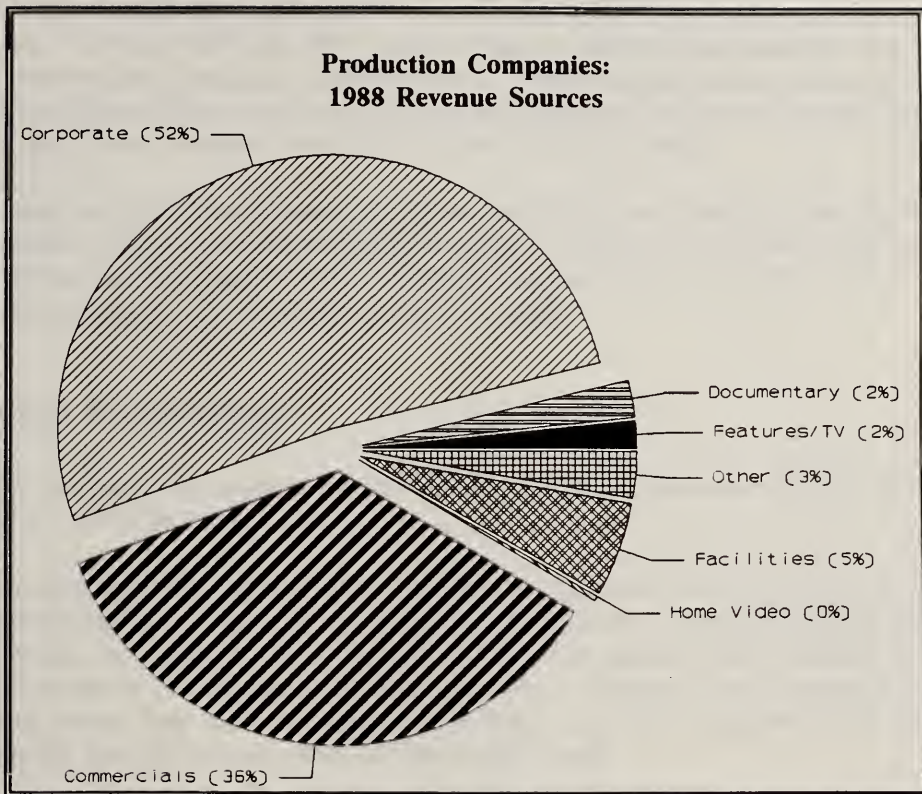
In 1987 and 1988, Massachusetts Production Companies reported gross revenues of \$150 million and \$154 million respectively. Clients from outside Massachusetts contributed about \$38 million, or 25% of total Production Company revenues for 1987. In 1988, out-of-state revenues rose to \$40 million or 26% of total producer revenues for that year. Though most Production Companies reported doing at least some work for out-of-state clients, few of them reported a balance of in-state and out-of-state clients. It was an all or nothing situation.

The following chart summarizes the estimated contribution of each type of production work to the total revenues of Production Companies.

<i>Sources of Revenue for Production Companies (\$ Millions)</i>		
	<i>Companies</i>	
	<i>1987</i>	<i>1988</i>
<i>Corporate</i>	76,720	79,890
<i>Commercials</i>	54,150	55,100
<i>Feature Film/TV</i>	4,720	2,570
<i>Documentary</i>	2,070	3,470
<i>Home Video</i>	930	480
<i>Facilities Rentals</i>	6,880	8,270
<i>Other</i>	4,480	4,220
<i>Total</i>	149,950	153,990

Sources of Revenue

The demand for corporate visual communications has created a large and relatively stable market that underpins the local production industry. Strong growth and stability make the Corporate production segment a very attractive, and subsequently very competitive, segment of the local production industry. Production Companies reported that about half of their total Revenues in both 1987 and 1988 were attributable to Corporate production work and that about 95% of the companies participated in this type of work.



Commercials were also a lucrative form of production work for Production Companies and accounted for 36% of their total revenues for both 1987 and 1988. In both years, about half of the Production Companies reported some level of income from Commercial production work.

The bulk of Feature Film and Television production work conducted in Massachusetts is location work for productions initiated in New York and California and primarily benefits local Freelancers and Production Service companies. Since relatively few local production companies actively pursue Feature Film and Television production, it is not surprising that the revenues generated by this type of work were nominal. In 1987, Feature Film production accounted for about 3% of total Production Company revenues while in 1988, it dropped below 2%.

Documentary production contributed about 1% of total Production Company revenues in 1987 and a quarter of the companies claimed income from this type of work. In 1988, Documentary production revenues grew to 2% of total revenues while the percentage of companies which engaged in Documentary production increased to 30%.

Home Video production continues to be an under-achiever for both national and local producers. In both 1987 and 1988, Home Video production accounted for less than 1% of Production Companies' total revenues. These companies are tending to move away from Home Video production work; the percentage of them reporting revenues from Home Video dropped from 13% in 1987 to 10% in 1988.

Equipment and Facilities Rentals are almost exclusively the domain of the Production Companies. About 5% of Production Companies' 1987 and 1988 total revenues were achieved through Equipment and/or Facilities Rentals while about 60% of the companies engaged in the equipment rental business.

Earnings Expectations

Average pre-tax profit margins for Production Companies increased slightly from 13% in 1987 to 14.5% in 1988.

The changing business climate within the local production industry is apparent in the earnings expectations expressed by Production Companies. In the 1985-1986 Film Office study, two-thirds of the Production Companies expected their earnings to increase in excess of 20% between 1986 and 1987. Though these companies remain optimistic about their business prospects for 1989, they do not express nearly the level of optimism they did in the previous Film Office study.

About 75% of the Production Companies expect their 1989 earnings to increase over 1988 levels with the median falling in the 6-10% growth range. However, in complete contrast to the 1985-1986 Film Office study, virtually none of the Production Companies expect earnings growth to exceed 20%.

Employment

Production Companies employ a total of about 1400 full-time and 1000 part-time individuals. Since these companies integrate facilities and other production services under one roof, they require a permanent staff with a variety of skills. About 40% of Production Companies employ five or fewer full-time staffers while only 13% of them employ over 20 full-time staffers. Though employment is tight, about half of the Production Companies reported increases in full-time employment between 1987 and 1988, and over a third of them reported increases in part-time employment.

Number of Projects

Production Companies averaged around 40 projects in both 1987 and 1988. Because these companies often act as post-production facilities, they work on small portions of a far greater number of projects than Independent Producers. In 1987, Production Companies averaged 38 projects with 45% of the companies working on over 20 projects. In 1988, Production Companies averaged 41 projects with 43% of the companies working on over 20 projects.

Years In Business

Production Companies average about 6.5 years in business. The capital investments in facilities serves as a barrier to entry; not just anyone can afford to start-up a production company. It is also likely that many of these companies started as Independent Producers and acquired equipment over time; this shift from Independent Producer to Production Company would tend to raise the average age of Production Companies while lowering the average age of Independent Producers.

INDEPENDENT PRODUCERS

Total Production Revenues

In 1987 and 1988, Massachusetts Independent Producers reported gross revenues of \$31 million and \$43 million respectively. Clients from outside Massachusetts contributed about \$8 million, or 25% of total Independent Producer revenues for 1987. In 1988, out-of-state revenues rose to \$11 million or 26% of total revenues for that year. About a third of the Independent Producers conducted *all* of their business with Massachusetts-based clients.

Sources of Revenue for Independent Producers (\$ Millions)

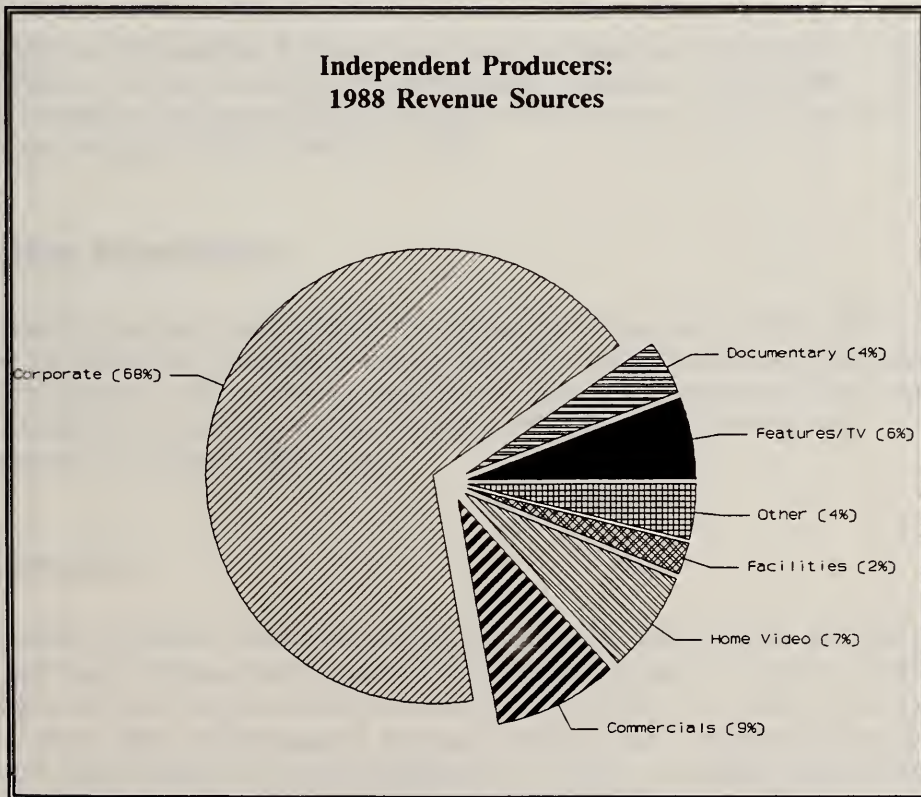
	<u>Independents</u>	
	<u>1987</u>	<u>1988</u>
<i>Corporate</i>	21,720	28,970
<i>Commercials</i>	2,850	3,890
<i>Feature Film/TV</i>	1,280	2,530
<i>Documentary</i>	1,340	1,680
<i>Home Video</i>	2,060	3,030
<i>Facilities Rentals</i>	580	950
<i>Other</i>	1,120	1,600
<i>Total</i>	30,950	42,650

Sources of Revenue

In terms of revenue growth, Independent Producers fared significantly better than Production Companies, having increased revenues 38% from \$31 million in 1987 to \$42.5 million in 1988. Average revenues grew from \$212,000 to over \$290,000. In 1987, over half of the Independent Producers earned less than \$100,000 while in 1988, 53% of them earned over \$100,000.

Corporate work accounted for about two-thirds of Independent Producer's total revenues in both 1987 and 1988. In 1987, 62% of the Independent Producers performed Corporate production work while in 1988, this rose slightly to about 70% of Independent Producers. Interestingly, even though Corporate production revenues were relatively greater for Independent Producers than for Production Companies, a smaller percentage of Independent Producers engage in Corporate production work.

Commercial production work accounted for about 9% of total Independent Producer revenues in both 1987 and 1988. However, in 1987, only 17% of the Independent Producers worked on Commercials. Business improved in 1988 and 27% of them received some degree of Commercial production work.



Like Production Companies, very few local Independent Producers engage in Feature Film and Television Entertainment production. In 1987, Feature and TV production accounted for just 2% of total Independent Producer revenues while in 1988 it rose to 6%.

The 1985-1986 Film Office study reported that two-thirds of Independent Producers received virtually all of their revenue from Documentary production. Two years later, only 20% of Independent Producers engage in this type of production work. Funding has dried up and the growth of Corporate production has attracted many producers away from Documentary production work. In both 1987 and 1988, Documentary work contributed about 4% of total Independent Producer revenues while only 20% of Independent Producers reported Documentary production in either year.

Home Video contributed about 7% of total Independent Producer revenues in both 1987 and 1988. Independent Producers appear to be moving into this area of production work; the percentage of them reporting Home Video revenues jumped from 16% in 1987 to 27% in 1988.

By definition, Independent Producers do not have significant investments in equipment and facilities. Even so, a portion of Independent Producers -- about 20% -- do earn revenue through Equipment Rentals, though these revenues only accounted for 2% of their total revenues in both 1987 and 1988.

Earnings Expectations

Independent Producers averaged 16.5% pre-tax profit margins for both 1987 and 1988. Similar to Production Companies, Independent Producers' earnings expectations for 1989 are moderate. Over 75% of them expect growth while less than 25% expect their earnings to remain flat or decrease from 1988 levels. Median growth expectations fall in the 6-10% range.

Employment

Independent Producers employ a total of approximately 300 full-time and 400 part-time individuals. Because Independent Producers sub-contract out much of their work to Freelancers and Production Service companies, they have no need to maintain large staffs. About 95% of Independent Producers employ five or fewer full-time people and most Independent Producers experienced no change in staffing levels between 1987 and 1988.

Number of Projects

In 1987, Independent Producers worked on an average of 10 or so projects and most of them, about 78%, worked on 10 or fewer projects. In 1988, Independent Producers averaged 11 projects while 66% worked on 10 or fewer.

Years In Business

At approximately 5.5 years, Independent Producers average about one year less in business than Production Companies. This difference can be explained by the ease with which an individual may become an Independent Producer. The low barriers to entry allow a great deal of turnover among the less-experienced group. This constant influx of new producers keeps the average years in business within this group relatively low.

PRODUCTION SERVICES

Production Service Companies represent the most diverse of the survey groups. These companies provide services ranging from pre-production -- such as casting, wardrobe, prop construction and purchase, and equipment rental -- to post-production services such as editing, film-to-tape transfer, and distribution. In between are a lot of ancillary services including, payroll and accounting, insurance, transportation, lodging, and catering.

Production Service Companies may or may not receive the bulk of their income from production-related activities. Depending on their line of business, some of these companies may earn a majority of their revenue from customers outside the film and video production industry.

Film Office records identified a total of 256 Production Service Companies with production-related revenues that ranged from \$0 to well over \$1 million. It must be noted, however, that several aspects of the survey sample may not be representative of the general population of Production Service Companies:

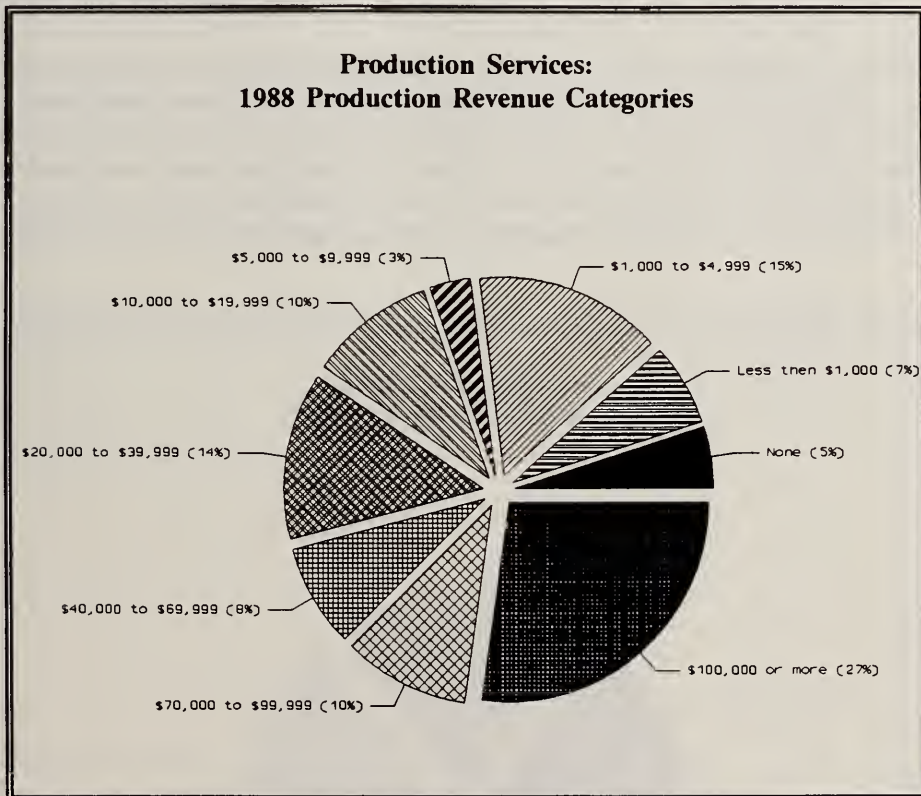
- o Film Office records generally list Production Service Companies which derive a significant portion of their revenue from film and video production activities. These records may under-represent start-up companies and companies newly targeting the production industry.
- o The survey did not attempt to record data for companies that went out of business during 1987 or 1988.

The diversity of companies represented in the Production Services category presents certain problems, particularly in the area of business structure, scale and sophistication. Different companies provide different products and/or services, have a variety of capital structures, compete within different markets, and differ in their operating strategies. Therefore, comparison of the data presented here to individual company performance is not recommended.

The following pages detail the results of the survey of Production Service companies.

Production-Related Revenues

In 1987, Production Service companies earned an average of almost \$103,000 from production-related work for total earnings of over \$26 million. In 1988, average earnings increased 30% to over \$133,000 for total earnings of over \$34 million. Due to methodological changes in the identification of Production Service companies and the collection of data, these figures differ significantly from those reported in the last Film Office survey and are not comparable.



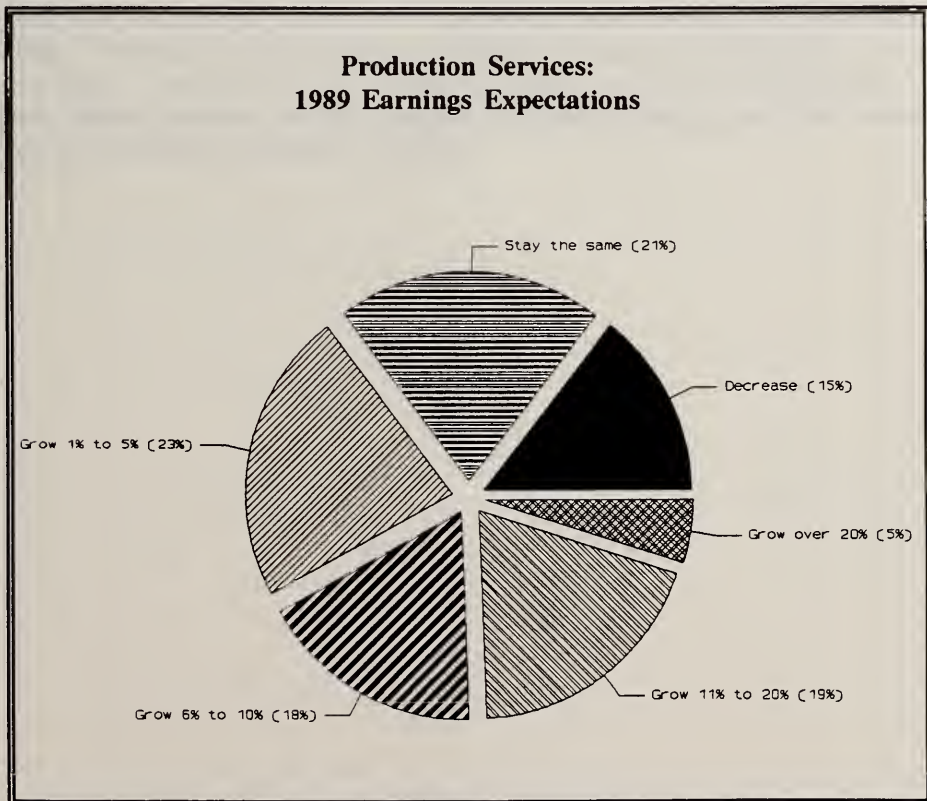
The average Production Service company earned about half of its 1987 and 1988 revenues from production-related work although reported earnings ranged from 0% to 100% of total gross revenues. However, these companies can be divided into two distinct groups: those that earned most of their revenues from production-related work, and those that used production work to supplement income from other sources. In 1987, more than 40% of the companies earned over 80% of their revenues from production-related work while an additional 34% of the companies attributed 5% or less of their total revenues from production work. The remaining 25% of companies were spread evenly between these two extremes. The results for 1988 are similar.

Out-of-State Revenues

Production revenues earned by Production Service companies and attributable to out-of-state sources averaged less than 14% of total production-related revenue for 1987 and amounted to just over \$3.5 million. In 1988, the percentage of out-of-state revenues increased slightly to just over 17% of production-related revenues or almost \$5.9 million.

Earnings Expectations

In general, Production Service companies expect 1989 to show moderate growth in production-related revenues from 1988. About 35% of the companies expect to earn only the same amount or less than they did in 1988. Of the 65% of Production Service companies expecting positive growth in 1989, most are clustered between 1-10%. Only 5% of the companies expect increases exceeding 20% compared to 1986 when almost 50% of the Production Service companies expected 20%+ growth.



Employment

Generally, Production Service companies are small, averaging just over 4 full-time, and 3 part-time employees. Only a very small percentage of these companies employ more than 5 full-time or part-time individuals. This suggests a total employment of slightly more than 1100 full-time individuals and 750 part-time "positions". Positions are distinct from individuals in that an individual may hold more than one part-time position at several different companies.

There was very little change in the employment levels at Production Service companies between 1987 and 1988. Approximately three-fourths of these companies indicated no change in their levels of full-time and part-time employment. The good news is that among companies reporting a change, 85-90% reported increases compared to only 10-15% which reported decreases.

Number of Projects

The average number of projects undertaken by Production Service companies in 1987 was about 106 and rose to 143 in 1988. However, these averages are somewhat misleading. Variation in the number of projects was extreme, ranging from none to well over 1000. Over 40% of the companies worked on 20 or fewer projects. The average is inflated because certain business, like film processing, provides service to hundreds or thousands of projects annually.

FREELANCERS

Freelancers are defined as self-employed individuals who offer their production skills and services on a job-by-job or *per diem* basis rather than as paid staffers in Production or Production Service companies. The work performed by Freelancers ranges from creative to technical to clerical and administrative. Although they usually specialize in one particular area of production, such as directing, Freelancers will often work in whatever positions become available and therefore generate earnings from a variety of production-related activities.

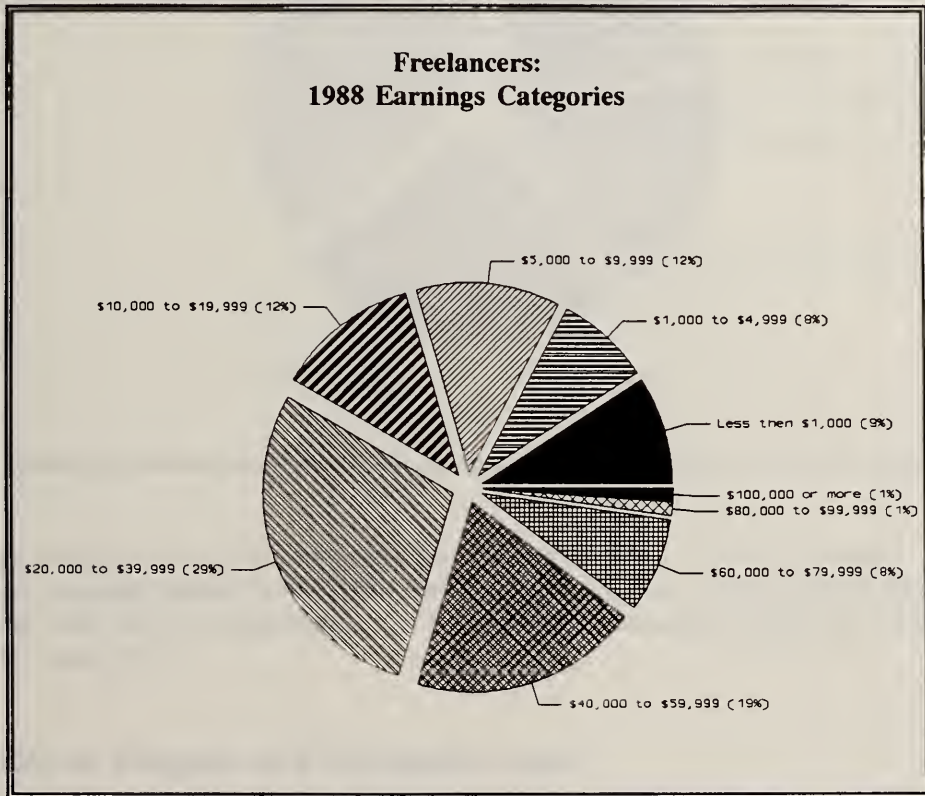
Freelancers comprise the largest of the survey groups and range from professional individuals who earned over \$100,000 in 1988 to those who worked only occasionally and for little or no pay. Film Office records identified approximately 500 freelancers in Massachusetts. It must be noted, however, that several aspects of the survey sample may not be representative of the general population of freelancers:

- o Due to the union's policies, IATSE members are generally not individually listed with the Film Office. Though several IATSE members responded to this survey, it is likely that, as a group, these individuals are under-represented in the survey results.
- o The small number of survey respondents with less than a year of freelance experience caused some erratic changes in survey results between 1987 and 1988 on certain questions.
- o The survey did not attempt to contact Freelancers who had moved out of state during 1987 or 1988.

The pages that follow detail the results of the survey of Freelance production individuals. The information is presented to reflect differences between union and non-union individuals as well as differences attributable to years of freelance experience.

Earnings and Daily Rates

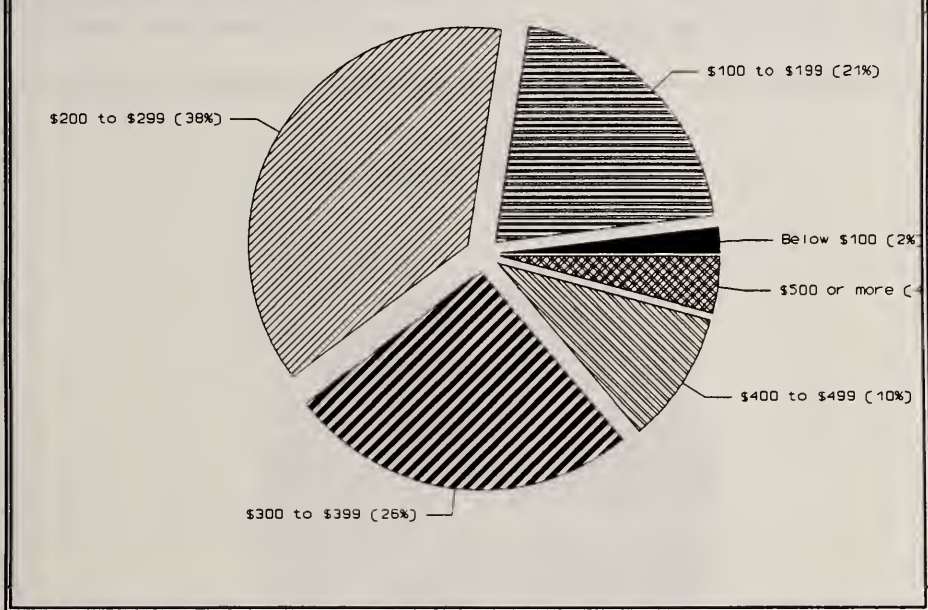
Since the term "Freelancer" applies to any individual who provides production services on a *per diem* basis, whether it is one day or 365 days per year, the reported rates and earnings within this group range widely. Freelancers with little or no experience will charge \$70 or less for a full day's work while established professionals command up to \$800 or more. This translates into annual earnings that range from below \$1,000 to well over \$100,000.



In general, average Freelance earnings increased close to 15% between 1987 and 1988, moving from just over \$25,000 to approximately \$29,000. Daily rates average about \$285.

Union members earned more than Non-Union freelancers in both 1987 and 1988. In 1987, Union Freelancer earnings averaged over \$31,000 compared to a Non-Union average of around \$20,000. In 1988, the discrepancy was even greater, \$38,000 for Union members versus less than \$23,000 for Non-Union. Average daily rates for Union members are close to \$300 compared to an average Non-Union rate of \$270.

Freelancers: Daily Rate Categories



Average earnings were also commensurate with experience. In 1987, average freelance earnings ranged from \$1100 for those with the least experience to \$45,000 for those with the most experience. In 1988, average earnings ranged from \$5,000 to \$52,000 respectively.

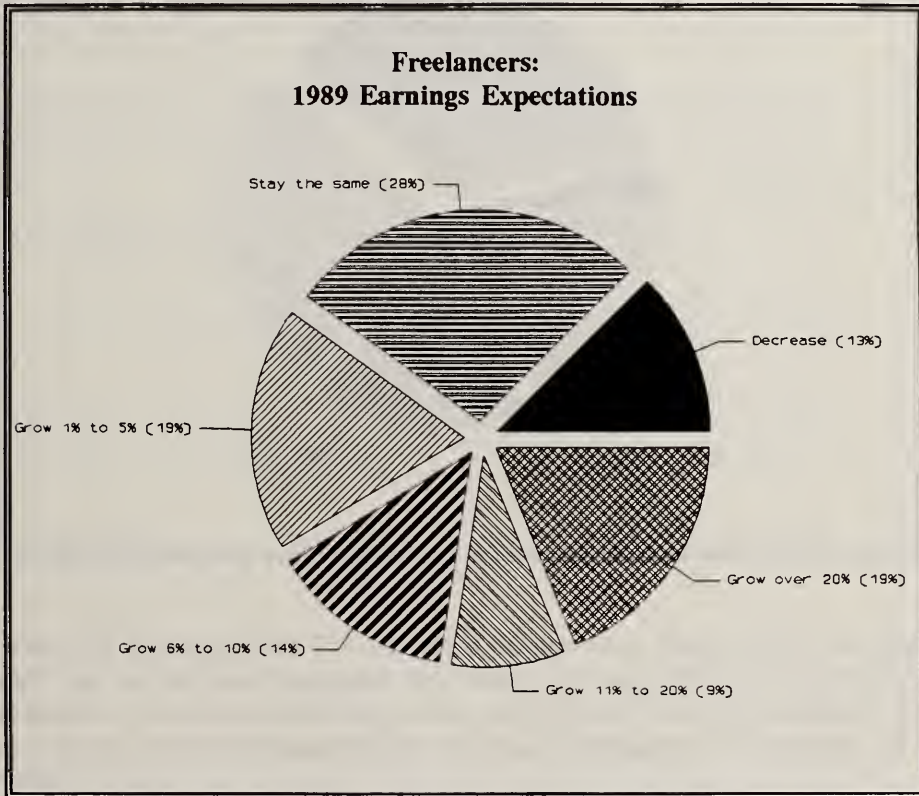
Number of Projects and Production Days

In 1987, the average Freelancer worked on 21 projects over a total of 101 production days, averaging just under 5 days per project. In 1988, the average Freelancer worked on 22 projects over a total of 113 production days, averaging just over 5 days per project. Projects and production days were also correlated to experience: the more experienced Freelancers generally worked more of both.

Union members worked more projects and more production days in both 1987 and 1988. In 1987, Union members averaged 27 projects and 116 production days compared to 17 projects and 87 production days for Non-Union. In 1988, the differential was less pronounced; Union members averaged 26 projects and 131 production days compared to 19 projects and 97 production days for Non-Union.

Earnings Expectations

Freelancers are moderately bullish about their potential earnings for 1989. Only 13% of the respondents believe that their earnings will decrease from 1988 levels. About 27% of Freelancers believe their earnings will remain the same as 1988's and 60% of them anticipate some level of increase. There is no significant difference between

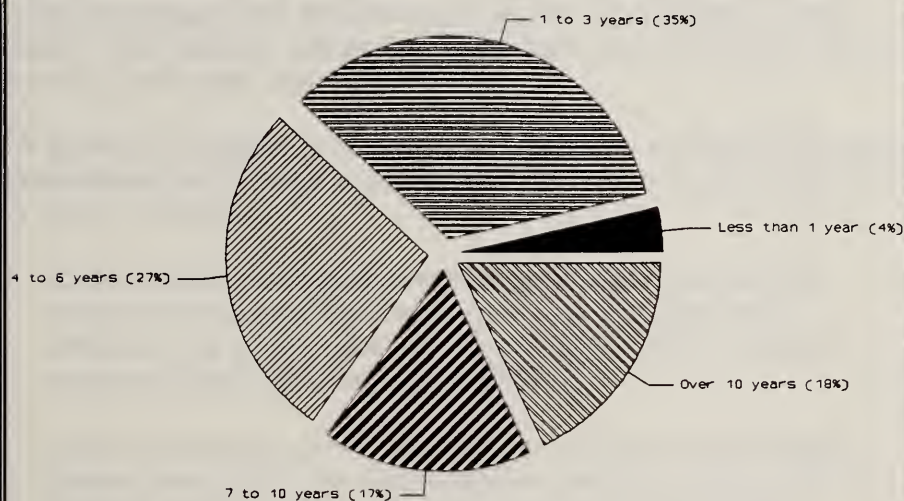


Union and Non-Union expectations. Freelancers with the least experience expect the largest average increases because they experienced the smallest average earnings in 1988. The most experienced Freelancers generally have reached their highest earnings potential and therefore expect little or no change in earnings over the coming year.

Freelance Experience

The average length of experience among all surveyed Freelance individuals is just over 5.5 years. Close to 40% of Freelancers have 3 years or less experience and 65% have 6 years or less. As experience increases, the number of Freelancers decline until it

Freelancers: Years of Experience



finally levels off between years 7 to 10. This decline most likely reflects the natural "shakeout" that occurs over time since the market can support only a certain number of Freelancers at reasonable earnings levels. At 6.8 years, Union Freelancers average about two more years experience than Non-Union Freelancers who average 4.8 years experience.

CONCLUSION

Butterfield Communications Group estimates that, in 1989, Massachusetts' film and video production industry will generate approximately \$216 million in direct expenditures. The economic impact from these expenditures, calculated using the multiplier of 1.6, will reach about \$346 million².

The 12% growth rate implied in these figures reflects the earnings expectations of survey respondents and indicates a growing but maturing production industry. This is due to a variety of factors:

- o As the production expenditures grow, ever larger increases are necessary to maintain the growth rate. This is evident when comparing the growth rates of 1985 and 1986 -- 168% and 33% -- to those of 1987 and 1988 -- 10% and 15%.
- o Corporate production will continue to dominate the local industry. Growth rates in this area will remain healthy and steady, probably hovering around 15-20% annually for the next several years.
- o Commercial production appears to have plateaued over the past two years and all indications from the national advertising community point to a continuing trend of little or no growth.
- o Feature and Television production is unpredictable, highly competitive and generally out of the control of local producers. The State, by way of the Film Office, has been able to attract a steady stream of location work which has accounted for the bulk of Feature and Television production in Massachusetts.
- o The money available for Documentary production has always been limited. It appears that this area of production will not play a significant role for most of the state's producers in the short term.
- o Continued competition among individuals and companies of all types will exert downward pressure on prices.
- o Perceived shortages of technical production resources, such as fully-outfitted soundstages and a sufficient supply of skilled technical personnel, to staff Feature Film, Television, and Commercial productions simultaneously.

² Use of the Federal Reserve Turnover Rate of 3.57 results in an economic impact of \$770 million.

